



C A L I F O R N I A

Dairy Review

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**2003 Statistics
& Trends Annual
now available**



California Department of Food and Agriculture
A.G. Kawamura, Secretary

CWT AUTHORIZED TO CONTINUE THROUGH JUNE 2005

In early March, the National Milk Producers Federation (NMPF) voted to reauthorize the Cooperative Working Together (CWT) Program for another year, beginning July 1, 2004 through June 30, 2005. NMPF reports that the vote is reflective of the CWT program's sizable impact on farm-level milk prices and dairy farm income.

NMPF estimated an increased return of nearly 60 cents per hundredweight for America's dairy farmers during the first year of the program, NMPF has been working to build support for a second year of operations. Now that CWT has once again garnered commitments for participation from dairymen producing over 68 percent of the nation's milk, the NMPF Board voted to reauthorize the program for an additional 12 months.

CWT will again be funded by a five-cent per hundredweight assessment on producers, either through their membership in a participating cooperative, or through their individual participation in CWT. This assessment will begin July 1, when the funding commitment for the first year of CWT ends, and continue through June 30, 2005. The funds raised by this assessment will again be used to finance programs to reduce the supply of milk in the domestic market by approximately 1.2 billion pounds.

Though the timing has not yet been set, CWT will again conduct a Herd Retirement program in its second year of operations. In 2003, the national dairy herd was reduced by 33,000 head as a result of the first CWT Herd Retirement program. Although there will not be a second Reduced Production Marketings program, the NMPF Board passed a motion to keep open the Export Assistance Bid process initiated in January 2004 under CWT. The export program will continue to accept bids from CWT members for bonus payments when the U.S. commodity prices for cheese and butter fall below \$1.30 and \$1.20 per pound, respectively. ☀



February Milk Production

Milk production in California for February 2004 totaled 2.8 billion pounds, up 2.9 percent from February 2003. USDA's estimate for U.S. milk production for February 2004 in the 20 major dairy states is 11.8 billion pounds, up 1.7 percent from February 2003. Production per cow in the 20 major states averaged 1,531 pounds for February, 42 pounds above February 2003. ☀

Minimum Class Prices

Statewide average hundredweight prices

Class	February	March	April
1	\$13.48	\$13.87	\$15.91
2	\$11.45	\$11.45	\$ N/A
3	\$11.29	\$11.29	\$ N/A
4a	\$10.75	\$11.94	\$ N/A
4b	\$11.74	\$ N/A	\$ N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	Feb.	March	Apr.
Phoenix, Arizona	\$13.94	\$14.29	\$15.99
Southern California	\$13.62	\$14.01	\$16.05
Portland, Oregon	\$13.49	\$13.84	\$15.54
Northern California	\$13.34	\$13.74	\$15.78
Boston (Northeast)	\$14.84	\$15.19	\$16.89

Quota Transfer Summary

For February 2004, six dairy producers transferred 4,739 pounds of SNF quota. February quota sales averaged \$460 per pound of SNF (without cows), an average ratio of 2.47. For March 2004, three dairy producers transferred 2,815 pounds of SNF quota. January quota sales averaged \$450 per pound of SNF (without cows), average ratio of 2.43. ☀

Alfalfa Update: March

Northern California: By month-end, Premium and Supreme alfalfa was steady with good demand, but light supplies. Fair and Good alfalfa was steady with some hay coming in from out of state. Retail and Stable hay was steady with moderate supplies. Ot hay supplies for retail/export was moderate to heavy. Some producers are reporting more weevil activity than usual with the warmer weather.

Southern California: Premium and Supreme alfalfa was steady at the end of the month. Production was under way near the end of the month making more supplies available in April. Fair and Good alfalfa was steady with Chino dairies looking for last year Good quality hay. Retail and Stable hay was steady. Exporters not showing much interest in adding to inventories. ☀

Supreme Hay Prices

Statewide average prices per ton

Area	2/27	3/5	3/12	3/19
Petaluma	—	\$140	\$150-160	\$145
North Valley ¹	\$155-169	\$142-157	\$140-147	\$145-168
South Valley ²	\$162-168	\$163-165	\$155-168	\$155-172
Chino Valley	\$148	—	—	\$148-158

¹ North Valley is Escalon, Modesto and Turlock areas.

² South Valley is Tulare, Visalia and Hanford areas.

Alfalfa Hay Sales/Delivery

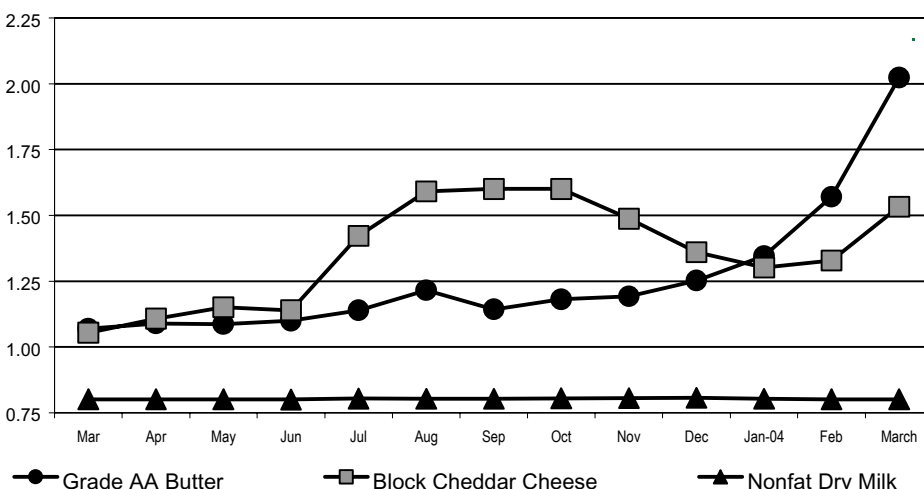
	February	March
Tons Sold ¹	84,352	58,790
Tons Delivered ²	38,875	38,270

¹ For current or future delivery.

² Contracted or current sales.

Alfalfa hay sales, deliveries and Supreme quality prices per ton, delivered to dairies, as reported by the USDA Market News Service, Moses Lake, WA, (509) 765-3611, <http://www.ams.usda.gov/marketnews.htm>

Grade AA Butter, Block Cheddar Cheese, and Nonfat Dry Milk Prices Used in the Calculation of California Class 1 Milk Prices





BSE PRODUCER UPDATE

Bovine Spongiform Encephalopathy (BSE)

BSE, widely known as "Mad Cow Disease", is a fatal disease of cattle first recognized in the United Kingdom (UK) in 1986. Most research suggests an abnormal protein, known as a prion, causes BSE. Scientific evidence shows the same disease agent that causes BSE in cattle also causes the new human disease, variant Creutzfeldt-Jakob disease.

BSE spreads in cattle primarily through animal feed containing processed ruminant products. Cattle infected with BSE take 2 to 8 years before showing signs of disease, which include changes in temperament, such as nervousness or aggressiveness, and progressive incoordination.

BSE Found in the US

On December 23, 2003 the United States Department of Agriculture (USDA) announced that a case of BSE had been diagnosed in a dairy cow from a herd in Washington. The cow was born in a herd in Alberta, Canada and was one of 81 animals from that herd imported into the US. The Washington herd has been depopulated and the investigation completed.

Enhanced BSE Surveillance Plan Announced

The USDA requested an international panel of experts to review their response to the BSE case in Washington. One of the panel's recommendations was an enhanced BSE surveillance program. On March 15, 2004 the USDA announced a new BSE surveillance plan based on these recommendations.

The plan is to collect samples of brain tissue from as many "high-risk" cattle as possible for 12-18 months AND to obtain a random sample from apparently healthy aged cattle at slaughter. Samples will be collected based on the distribution of cattle in the US. This surveillance will determine if BSE exists in the national herd, and, if so, estimate the prevalence of disease in the US adult cattle population.

The plan targets cattle classified as "high-risk" because these animals are most likely to have BSE. The total number of these "high-risk" cattle in the US is estimated at 446,000 each year. The USDA has set the collection target at 268,000 - the number of samples that could detect BSE at a rate of 1 positive in 10 million adult cattle with a 99% confidence level. This program would detect BSE if there were only 5 positive animals in the entire country!

In addition to sampling "high-risk" cattle, USDA will also collect random samples from apparently healthy aged cattle at the top 40 slaughter facilities across the country. These cattle are included because BSE is a disease of older cattle with a typical incubation period of 2-8 years.

Surveillance for BSE in California

Surveillance for BSE began in 1990. California collected 560 samples in 2001 and approximately 2,000 in 2002 and in 2003. The US sampled 20,543 cattle in 2003 - a sample size designed to detect BSE if it occurred in 1 animal per million adult cattle with a 95% confidence rate. This sample size is more than 47 times the international standard for countries with a "low risk" of BSE.

California is working with the USDA and the cattle industry to determine the best way to enhance BSE surveillance and test as many "high-risk" cattle as possible for 12-18 months. Brain samples will be collected from cattle over 30 months of age that are:

- ◆ Non-ambulatory (cannot rise or cannot walk)
- ◆ Showing neurological signs
- ◆ Condemned, euthanized or died following signs that may be associated with BSE
- ◆ Dead from unknown cause.

In addition, a random sample of apparently healthy aged cattle will be sampled at California slaughter facilities.

Sample Tests

There are no tests that detect BSE in live animals. Current tests look for the abnormal prion protein in the brain. Two rapid screening tests have recently been licensed for use in the US; Bio-Rad Laboratories rapid TeSeE® test and Idexx HerdChek(R) BSE Antigen Test Kit.

Sensitive screening tests may give false positive results - samples positive to these BSE screening tests will be sent for further confirmatory testing at the national reference laboratory.

BSE Surveillance in Other Countries

In 2002, the UK tested nearly 400,000 samples, with over 1,000 positive for BSE. However, all cattle over 30 months of age in the UK are purchased and do not enter any food chain; only some of these cattle are tested. During the same time period, over 10 million samples were tested from the other European Union Member States, and over 1,000 were positive for BSE. In Japan, during the same period of time, over 1 million cattle were tested (all slaughtered cattle) and 2 were positive for BSE.

CDFA Animal Health Branch Offices	
Sacramento (HQ)	916-654-1447
Modesto	209-491-9350
Ontario	909-947-4462
Redding	530-225-2140
Tulare	559-685-3500
USDA/APHIS/VS 916-857-6170 or 877-741-3690	


Animal Proteins Prohibited in Ruminant Feed

In a press release issued on January 26, 2004, the U.S. Food and Drug Administration (FDA) announced additional measures it intends to put in place to strengthen the 1997 animal feed regulation prohibiting certain mammalian proteins in the manufacture of ruminant feeds. The additional measures will be published as an interim final rule that will implement the following changes to FDA's present ruminant feed ban:

- 1) The use of ruminant-derived blood and blood products will be prohibited in ruminant feeds.
- 2) The use of poultry litter as a feed ingredient for ruminant animals will be prohibited.
- 3) Plate waste, which refers to inspected meat products that have been cooked and offered for human food and further heat processed for feed, will be prohibited as a feed ingredient for ruminant animals.
- 4) The rule will require equipment, facilities or production lines to be dedicated to non-ruminant animal feeds if prohibited mammalian proteins are being handled.

Once published by FDA, the interim final rule will be effective immediately and a 90-day comment period will ensue. FDA has not announced a formal grace period to comply for feed ingredients in distribution or stored on-farm when the interim rule is published, and considers the feed and feeding industries to now be on notice of these anticipated changes to the ruminant feed ban. Therefore, dairy farms now handling ingredients that will be prohibited from ruminant feed under the new interim rule should begin taking the necessary steps to be in compliance.


As with all feeds that contain prohibited mammalian proteins, once the interim final rule is published, labels for blood, poultry litter and plate waste being distributed as commercial feed will be required to show the caution statement, "Do not feed to cattle or other ruminants." Handling and transportation of these ingredients will require dedicated equipment to prevent commingling with feed ingredients intended for ruminant animals.

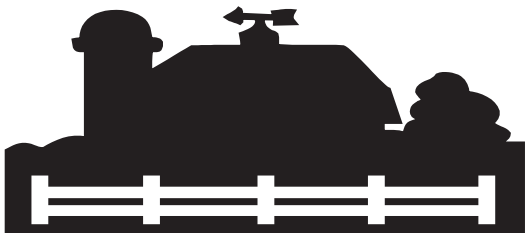
The Agricultural Commodities and Regulatory Services (ACRS) Branch will enforce the provisions of the interim final rule to assure the feed and feeding industries that commercial feed is properly identified and prohibited material is excluded from the diets of ruminant animals. 

Secretary Veneman Announces Expanded BSE Testing

Agriculture Secretary Ann M. Veneman announced an expanded surveillance effort for Bovine Spongiform Encephalopathy (BSE) in the United States. The objective for the new surveillance program is to obtain increased samples from the targeted high-risk adult cattle population and obtain a small random sample of apparently normal aged animals. This intensive effort will allow USDA to more accurately estimate the possible prevalence of BSE in the U.S. cattle population. We will begin immediately to prepare for the increased testing with the anticipation that the program will be ready to be fully implemented on June 1, 2004. Testing will be conducted through USDA's National Veterinary Services Laboratories in Ames, Iowa, and through a network of laboratories across the country

USDA's BSE surveillance program historically has been focused on the cattle populations where it is most likely to be found, including those condemned at slaughter because of signs of central nervous system disorders, non-ambulatory cattle and those that die on farms. In FY 2004, USDA sampled 20,543 animals—a sample size designed to detect the disease if it occurred in one animal per million adult cattle with a 95 percent confidence level, which is 47 times the international standard for low-risk countries.

The primary focus of USDA's enhanced surveillance effort will continue to be the highest risk populations for the disease, but USDA will greatly increase the number of target animals surveyed and will include a random sampling of apparently normal, aged animals. USDA will build on previous cooperative efforts with renderers and others to obtain samples from the targeted high-risk populations, which are banned from the human food supply. Under the enhanced program, using statistically geographic modeling, sampling some 268,000 animals would allow for the detection of BSE at a rate of 1 positive in 10 million adult cattle with a 99 percent confidence level. In other words, the enhanced program could detect BSE even if there were only five positive animals in the entire country. The sampling of apparently normal animals will come from the 40 U.S. slaughter plants that handle 86 percent of the aged cattle processed for human consumption each year in the United States. The carcasses from these animals will be held and not allowed to enter the human food chain until test results show the samples are negative for BSE. 



Questions from the Corral

See end of article for information on submitting questions



Who can testify at a milk pricing hearing?



Public hearings are the means to which changes are made to pricing formulas and pooling provisions. Generally, the hearing process is initiated by a member of the industry by filing a petition for a public hearing with the Department. However, the Department can also call a hearing on its own motion.

All milk pricing hearings are open to the public. Anyone can sign up to testify at a hearing including milk producers, cooperative representatives, milk processors, trade association representatives, and consumers. An individual may also submit a letter to the Secretary of Food and Agriculture stating their opinion or comments regarding the hearing topic. The letter would then become part of the hearing record. The decision from the hearing will reference all the contents of the hearing record.



How can Grade B milk receive a higher price than Grade A milk?



Last month we discussed the difference between degrading and depooling and their effects on the pool. There is also the option of producing manufacturing milk, commonly known as Grade B milk. Unlike restricted use or degraded milk, Grade B milk is not included in the pool. A producer may voluntarily declare Grade B status once a year on January 1st.

The price a Grade B producer receives for his or her milk is agreed upon by the producer and the milk processor. Typically, Grade B producers will contract with cheese plants and agree to a price that reflects prices in the wholesale cheese markets.

Because of the anticipated decrease in milk supplies later this year and processors wanting to increase their inventories to guard against potential shortages, cheese prices are increasing quickly. In other words, as the wholesale cheese prices increase, the contracted price received by Grade B producers will also increase. On the other hand, Grade A producers that participate in the pool will share in the revenues generated from all classes of milk. Classes 2, 3, and 4a are directly tied to the butter and powder markets and in recent weeks the price of butter has increased significantly. However, the price of powder has remained flat and as a result, the prices for Classes 2, 3, and 4a are lower than Class 4b.



What is causing higher milk prices?



In stark contrast to the situation experienced a year ago, milk prices have surged in recent weeks. Wholesale butter and cheese markets remain somewhat volatile, experiencing large day-to-day price changes. Nonetheless, butter and cheese prices have been trending upward, increasing by over \$0.70 per pound for butter and \$0.50 per pound for cheese since January 2004.

Unlike high milk prices in previous years, there does not appear to be any one reason that would explain the upward price movements in wholesale dairy markets. We offer the following abbreviated list of factors that may be contributing to the extraordinary price levels:

- Milk production is not increasing and is expected to be "soft" for several months if not the rest of 2004. Milk production has been lower in each of the past 6 months relative to the milk production levels of last year.
- Restrictions have greatly reduced the number of replacement heifers imported from Canada.
- Although there is variability among states, cow numbers are down across the U.S.
- Lower culling rates have negatively impacted milk production per cow.
- Sales of dairy products, which have been sluggish for the past two years, are expected to take off significantly this year, particularly for cheese.
- Monsanto's planned reduction in sales of rBST will negatively impact total milk production.

(Continued on next page)

Questions . . .

(Continued from Page 5)

- Lenders may be reluctant to finance dairy expansions until there is some recovery of equity lost during 2002 and 2003.
- Cooperatives Working Together (CWT), the farmer-funded program was launched in July 2003 and expects to reduce the milk supply by 1.2 billion pounds by June 2004. The program has been reauthorized for another year.

While there is no dispute that prices are strong now, not everyone expects prices to remain that way for the rest of the year. Some of the reasons prices may retreat from recent highs are:

- Commercial use of dairy products is experiencing only moderate growth.
- Consumer spending remains unsettled and does not show a clear direction.
- Commercial stocks of dairy products have been reduced but not remarkably.
- Dairy farm exits, cull cow prices and expansion efforts are not expected to deviate much from previous years.
- Dairy product markets are *expected* to be tight later in the year, and milk production is *expected* to be lower than normal for the remainder of the year. However, those expectations are only forecasts, and those events may not actually materialize.
- The impact of the media's attention to bodyweight and diet remains unclear. ☀

Note: Send your "Questions to the Corral" via the branch website email address: dairy@cdfa.ca.gov or contact Karen Dapper by phone at (916) 341-5988.

BSE Rapid-Results Test

Bio-Rad Laboratories, Inc. of Hercules, California, announced USDA's approval of its TeSeE rapid test days. The test, already in use in Japan and Europe, detects the presence of the resistant form of prion protein, linked to BSE and can identify these prions at extremely low levels. The TeSeE test can be used in mass screening programs and produces results in just four hours. ☀

National Dairy Situation and Outlook – USDA Estimates

Milk Production and Cow Numbers

Monthly: Compared to 2003, USDA estimates that overall milk production across the U.S. was up 1.3% in February, led by Texas' 11.3% growth in milk production (on 3,000 less cows and 175 more pounds per cow). California's estimated production was up 3.2% (on 30,000 more cows and 25 more pounds per cow). Among other western states, Arizona was up 1.4%; New Mexico up 7.3%; and Washington down 0.9%. Four of the top 10 states reported a decrease: New York -2.5%; Washington -0.9%; Minnesota -0.3%, and Pennsylvania -4.4%.

Quarterly: For the fourth quarter of 2003 compared to the third quarter of 2003, U.S. milk cow numbers were down 0.7% at 9.011 million, production per cow was up 0.2%; the net effect was a 0.5 decrease in milk production to 41.5 billion pounds. USDA projects that for the first quarter of 2004 compared to the fourth quarter of 2003, U.S. milk cow numbers will decrease 45,000 cows to 8.965 million cows, production per cow will be up 4.3%; the net effect would be a 3.9% increase in milk production to 43.1 billion pounds.

Milk Prices

Comparing the fourth quarter of 2003 to the third quarter of 2003, U.S. average milk prices were up \$1.20/cwt. to \$14.40/cwt. USDA projects that for the first quarter of 2004, U.S. average milk prices will be down \$0.65-0.85/cwt. compared to the fourth quarter; including a \$1.00-\$1.10 decrease/cwt. Class 4b price change and a \$1.70-2.00 increase/cwt. Class 4a price change.

Utility Cow Prices

Comparing the fourth quarter of 2003 to the third quarter of 2003, average U.S. utility cow prices were down \$0.24/cwt. to a national average of \$49.60/cwt. USDA projects that utility cow prices will average \$46-47 in the first quarter of 2004.

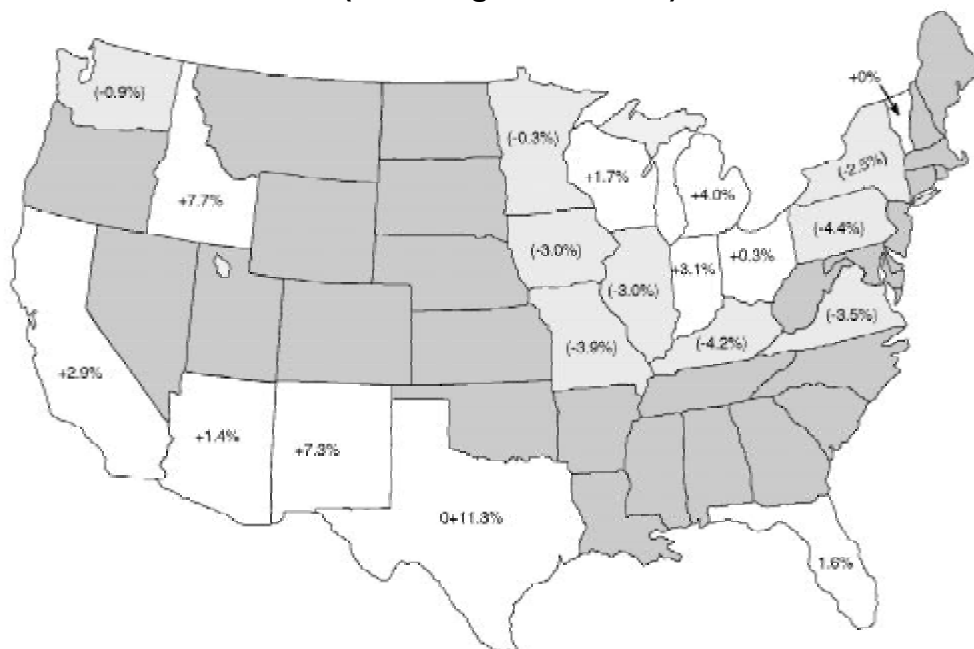
Information from the USDA-NASS publication "*Milk Production*" and the USDA-ERS publication: "*Livestock, Dairy, and Poultry Outlook*." ☀

2003 Statistics & Trends Annual

The Statistics & Trends Annual for 2003 is now available. Call the Dairy Marketing Branch at (916) 341-5988 to receive a copy by mail, or visit our website at www.cdfa.ca.gov/dairy/dairystats_annual.html

February Milk Production in the Top 20 States

(% Change from 2003)



For the U.S. overall, comparing February 2004 to February 2003:

- Milk production during February was up 1.3%
- The number of cows on farms was 8.994 million head, down 150,000 head
- Production per cow averaged 1,513 pounds, 40 pounds more than February 2003
- Nine of the top twenty producing states showed a decrease in milk production

As reported by USDA
and CDFA (for California)

Secretary Kawamura Appoints Members to the Milk Pooling Producer Review Board

Secretary Kawamura appointed four members to the Milk Pooling Producer Review Board in late March. The Board is composed of 12 producer representatives from around the state and advises the Secretary on the administration of the Milk Pooling Program.

Tom Mendes from Riverdale is reappointed for a second four-year term on the Board. Geoffrey Vanden Heuvel (Chino) and Tom Barcellos (Porterville) are being appointed to their first four-year terms on the Board. David Machado (Elk Grove) is appointed to a one-year term filling an existing vacancy on the Board. The next planned meeting of the Board will be in late spring to review the proposed operating budget for the Milk Pooling Program for the 2004/05 fiscal year. ☀

Dairy Marketing Branch Assessment Returns to Previous Level

The Dairy Marketing Branch suspended the Market Milk Administration Fee (Fee) on August 1, 2003, after determining that sufficient funds were available to administer the Program without continuing to collect the fee. At this time, the Branch's cash balance is at a level that is necessary to reestablish the Fee to its previous level of one and five-tenths cents (\$0.015) per hundredweight. Two thirds of the assessment is paid by producers of market milk and one third is paid by handlers of market milk. The Fee will go into effect with milk received by market milk handlers beginning April 1, 2004. ☀



Hundredweight
Pool Prices

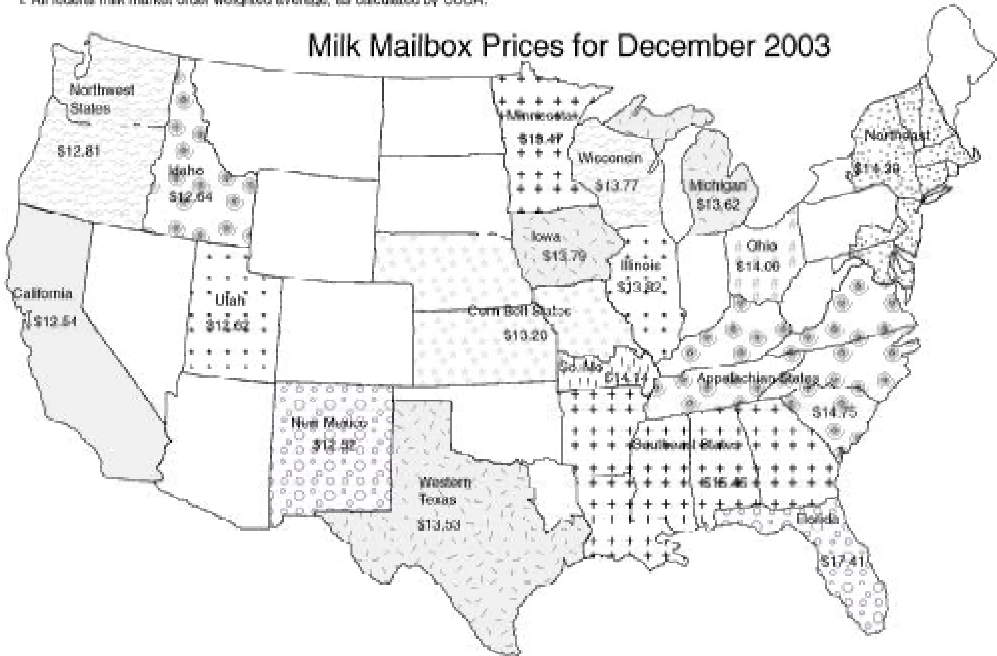
Month	Quota	Overbase
August '02	\$11.48	\$ 9.78
September	\$11.58	\$ 9.88
October	\$11.84	\$10.14
November	\$11.44	\$ 9.74
December	\$11.48	\$ 9.78
January '03	\$11.40	\$ 9.70
February	\$11.11	\$ 9.41
March	\$10.93	\$ 9.23
April	\$11.02	\$ 9.32
May	\$11.05	\$ 9.35
June	\$11.17	\$ 9.47
July	\$12.72	\$11.02
August	\$13.96	\$12.26
September	\$14.34	\$12.64
October	\$14.45	\$12.75
November	\$13.56	\$11.86
December	\$13.09	\$11.39
January '04	\$12.71	\$11.01
February	\$13.32	\$11.62

Milk Mailbox Prices

Milk Mailbox Prices in Dollars per Hundredweight

**	June	July*	August	September*	October	November*	December
California*	\$10.13*	\$11.53*	\$12.75*	\$13.24*	\$13.46*	\$12.82*	\$12.54
USDA**	\$10.77*	\$11.72*	\$12.92*	\$14.20*	\$14.00*	\$14.50*	\$13.01*

¹ California mailbox price calculated by CDF-A.
² All federal milk market order weighted average, as calculated by USDA.



In December 2003, mailbox milk prices for selected reporting areas in Federal milk orders averaged \$13.51 per cwt., 30¢ less than the figure for the prev month. The component tests of producer milk in December 2003 were butterfat, 3.70%; protein, 3.121; and other solids 5.70%. On an individual reporting basis, mailbox prices decreased in all reporting areas, and ranged from \$17.41 in Florida to \$12.52 in New Mexico. In December 2002, the Federal milk or order all-area average mailbox price was \$11.69, \$2.12 lower.

Note: The mailbox price data series includes producer milk marketings that were not pooled under the Federal milk order system due to disadvantageous price relationships.

In accordance with the California Government Code and ADA requirements, this publication can be made available in an alternative format by contacting Karen Dapper at (916) 341-5988, by email at dairy@cdfa.ca.gov, or contacting TDD 1-800-735-0193.

The California Department of Food and Agriculture Dairy Marketing Branch publishes the California Dairy Review monthly. Please direct any comments or subscription requests to Karen Dapper at (916) 341-5988 or send an email to dairy@cdfa.ca.gov

Milk Pricing Information:
Within California 1-800-503-3490
Outside California 1-916-442-MILK

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